NATIONAL
COMMUNITY LAND TRUST
NETWORK

To:
Chairman Hensarling
Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20505

Re:
House Financial Services Committee request for ideas on poverty and housing affordability

From:
National Community Land Trust Network

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Date:
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The Honorable Jeb Hensarling
Chairman
Financial Services Committee
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Re: House Financial Services Committee request for ideas on poverty and housing affordability

To Chairman Hensarling:

The National Community Land Trust Network thanks the Committee's Chairman for requesting ideas to effectively address the growing issue of housing affordability in our country. Per the Chairman's request, we would like to share information on *permanently affordable housing* and *renter asset-building* strategies, which are both: (1) innovative approaches to address housing affordability that respect individual rights and promote individual responsibility, and (2) methods of targeting housing assistance to change generational cycles of poverty. Above and beyond innovation and inter-generational change, permanently affordable housing models and renter asset-building models more prudently and efficiently use public funds than many commonly used affordable housing approaches.

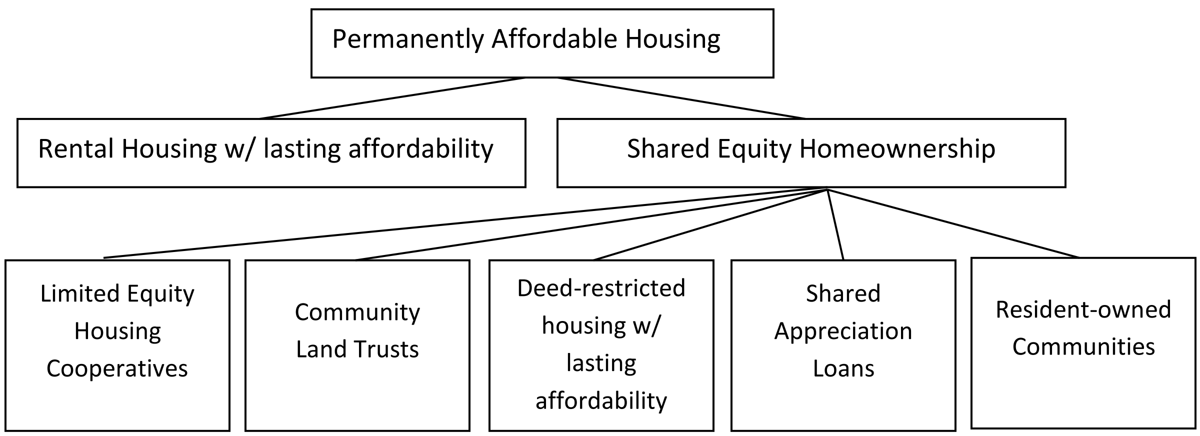
Ultimately, these models focus on two key ways to address affordable housing needs:

(1) to create and sustain affordable housing units—both homeownership and rental—so that affordability periods do not expire and only a one-time public investment is needed to maintain affordability;
(2) to build assets among very low-, low-, and moderate-income households so that fewer households require ongoing subsidies to afford their housing.

While growing the stock of affordable housing and helping families build wealth can improve cost-efficiencies and societal impact, they still require public funds. And ultimately, far greater investments in affordable housing are needed in order to address the growing need.

<u>What is Permanently Affordable Housing (PAH)?</u>

PAH refers to all types of housing with *lasting* affordability. These types include rental or homeownership units created by nonprofits, community development corporations, or public entities that utilize various legal mechanisms to ensure the unit remains permanently affordable (hereinafter "PAH programs"). Differing from the shorter affordability periods required by federal programs, these programs opt to maintain the affordability of housing over the long term in order to preserve the affordable housing stock and the public's investment in affordable housing production.



A. **Shared Equity Homeownership (SEH):** SEH is an umbrella term for programs that provide homeownership units with lasting affordability. Sometimes, SEH providers are referred to as "permanently affordable homeownership programs" or homeownership programs with "lasting affordability." SEH programs make a one-time investment to create a home that is affordable for purchase by a low-to-moderate income homebuyer. In return for purchasing a home at an affordable cost, the homeowners agree to limit their returns upon resale. In effect, homeowners "share" some of the proceeds from resale to pay the homeownership opportunity forward to the next low-to-moderate moderate income household who buys the home. Hence, these models utilize a one-time public investment in a self-sustaining way to provide homeownership opportunities for the first family and every subsequent family who owns the affordable home.

1. ***Limited Equity Housing Cooperatives (LECs):*** LECs are traditionally stand-alone corporations that are owned collectively by low-to-moderate income residents. Beyond the initial subsidy to make the homes affordable, the corporation typically obtains financing through a blanket mortgage. Individual residents may or may not need to obtain an individual share loan in order to buy into the cooperative corporation. Through their incorporation documents, the cooperative declares its corporate purpose to be the provision of affordable housing to low-to-moderate income households. The shareholder agreement, signed by all residents, further stipulates and specifies resale restrictions. A key restriction is to restrict the maximum price for which the home may be resold, so that it remains affordable for a subsequent low- or moderate-income purchaser. Many LECs have a "sponsor" or "steward," which is a government or nonprofit organization that assists residents to: 1) establish the cooperative and its legal documents, policies, and procedures; 2) secure development financing, permanent financing, and the initial subsidy to make the property affordable; and 3) provide ongoing support and monitoring for successful

resident governance, property management, and affordability compliance. The largest steward of LECs is the Urban Homesteading Assistance Board, which serves LECs in New York City. The best estimates of LECs nationally believe there are roughly 450,000 LEC units.

2. ***Community Land Trusts (CLT):*** The traditional CLT model separates the title to the underlying land from the title to the improvements (i.e. built structures), although some states prohibit the legal separation of the land from the improvements. In a typical CLT, the CLT retains ownership of the land and the homeowner owns and finances the purchase of the improvements. The homeowner is also given a leasehold interest in the land (and pays a nominal monthly fee to the CLT to lease the land), which is secured by a renewable ground lease that has a 50 to 99 year term, depending on state law. Additionally, the CLT may subsidize the property beyond the cost of the land to ensure the home is affordable for their targeted income levels. In effect, purchasing only the improvements allows homeownership to be affordable to low- to-moderate income households, as the household only needs to secure a mortgage loan for the affordable purchase price. The ground lease (or sometimes, a deed covenant) stipulates resale restrictions, including that the owner will sell the home at below market-value to a subsequent low- or moderate-income household. There are over 200 CLTs across the country, which provide approximately 20,000 owner-occupied affordable homes.

3. ***Deed-restricted programs designed for lasting affordability (DR programs):*** Homeownership programs may utilize deed covenants to create lasting affordability. DR programs either directly (through funds) or indirectly (through inclusionary zoning requirements) subsidize the cost of a home to make the purchase price affordable for low-to- moderate income homebuyers. The homeowner signs a deed covenant (also referred to as a "deed restriction" or "deed-restricted covenant") that stipulates resale restrictions, including that they will sell the home at an affordable purchase price to the next low-or moderate-income purchaser of that property. The vast majority of deed-restricted programs designed for lasting affordability are inclusionary housing programs (also referred to as "inclusionary zoning"), which are administered by the jurisdiction. There are over 500 inclusionary housing programs across the country. There is not a reliable estimate on the number of affordable homeownership units that they provide, but we suspect it may be around 100,000 homes.

4. ***Shared Appreciation Loan Programs (SALs):*** Shared appreciation loan programs typically utilize a second 30-year mortgage with no or very low interest and is due upon sale. In effect, this second mortgage loan operates as a "subsidy" to make the home affordable for low-to-moderate income households. Differing from resale-restricted programs, the home is bought and sold for the fair market value. The program stipulates the share of the appreciation that goes to the homeowner and the share of the appreciation that goes to the program upon resale either in the second mortgage loan documents or an accompanying deed covenant. Receiving a portion of the appreciation allows the program to increase the amount of the SAL that is provided to the next low- to-moderate income buyer in order to keep pace with the market. It is unknown how many SAL programs exist and how many affordable homes they have created and preserved.

5. ***Resident-Owned Communities (ROCs):*** Manufactured housing is one of the dominant sources of affordable housing in the United States and is predominantly provided by the private market. While manufactured homes tend to be relatively affordable and often

depreciate in value, the land under manufactured housing communities tends to increase in value. The property owners frequently escalate ground lease rents to unaffordable prices, rendering residency unaffordable, or owners sell the property to developers requiring manufactured homeowners to move. To combat this trend, some manufactured housing communities have organized (typically with the support of ROC-USA) to form resident-owned communities (ROCs) whereby resident-controlled cooperatives purchase and retain ownership of the land while residents purchase and retain ownership of their manufactured homes. Residents may then join the cooperative by purchasing (and often financing) shares into the cooperative corporation. In order to do so, the residents sign a shareholder agreement. Ultimately, ROCs operate as a hybrid model whereby the cooperative ensures that shares and ground lease fees remain affordable to current and future residents, but the manufactured housing remains resale-unrestricted, as manufactured homes tend to serve low-to-moderate income households and remain affordable over time. In only seven years, there are about 10,000 homes in ROCs across 14 states.

B. **Rental Housing with Lasting Affordability:** Some PAH programs preserve the lasting affordability of rental housing.

   1. ***Lasting Affordability Requirements & Lifecycle Underwriting.*** In order to ensure the rental housing has affordability that lasts, programs typically record a deed covenant on the rental property with a long-term affordability period (e.g. "life of the building" or "in perpetuity"). For instance, some states have adopted lasting affordability requirements in their Qualified Allocation Plans for Low Income Housing Taxing Credit projects, such as New Hampshire and Utah that require 99+ years of affordability. However, adopting lasting affordability can effectively be an unfunded mandate, requiring substantial resources in recapitalization of rental housing over time. One innovative solution to this is lifecycle underwriting for affordable rental projects. In this approach, the original project budget includes larger replacement reserves that are capitalized during the initial development process avoiding much higher costs in recapitalization over time.

What are Renter Asset-Building programs?

Renter Asset-Building programs— such as Family Self-Sufficiency, Jobs Plus, the Moving to Work Demonstration Project, and Cornerstone's Renter Equity℠ model— are not inherently a permanently affordable housing model (although they can all be coupled with lasting affordability). Nevertheless, we are including the review of these programs because they show great promise for meeting the objective of transforming households, lessening poverty, and better using public subsidies by building assets among renters. The basic concept in these programs is to help households increase their earnings and build assets through support and financial incentives so that households may contribute more and lessen subsidized rents or have enough income and assets to no longer need rental assistance. Typically, these programs use cost-effective models to pair financial incentives and case management to promote households to improve their employment (in both salary and hours) and increase their savings to realize upward economic mobility.

Cornerstone Renter Equity℠ uses a different approach to build assets among lower renters through a more effective rental property management approach. Renters are required to pay an affordable rent, complete a weekly property management assignment (e.g. weeding the front yard, sweeping hallways), and attend a monthly meeting. If these renters complete these requirements and maintain their tenure, they are able to build up to $10,000 in equity over ten years. The program does not require any additional public subsidies. By function of properties being well-maintained and incentives for longer durations of tenure, the program "pays for itself" by savings recouped in low turnover and low vacancies.

<u>What Is Known About the Performance of Permanently Affordable Housing Programs?</u>

Shared Equity Homeownership (SEH)[1]. Conducted by Cornerstone Partnership in 2014, the "Social Impact Report" is a recent national longitudinal study of 53 SEH programs representing 3,768 homes[2]. It found that SEH programs:

1. ***Increase access to homeownership.*** The average household income at the time of purchase was 65% of the area median income, and 82% were first-time homebuyers. On average, the homes were sold 25% below their fair market value in order to make home purchase affordable.
2. ***Improve the likelihood that homeownership will be sustained.*** Over 93% of households remained homeowners for at least five years. This starkly contrasts a nation-wide longitudinal study conducted by Reid (2005), which found that less than 50% of first-time lower-income and minority owners maintained homeownership for five years.
3. ***Reduce the likelihood of foreclosures.*** Shared equity homeowners—all of whom were lower-income—were ten times less likely to be in foreclosure than homeowners in the conventional market across all incomes. These results are consistent with findings from other national studies conducted in 2009-2011.
4. ***Build wealth for homeowners.*** The annual rate of return on these households' investments in homeownership was 7.97%. If they had taken the same amount of money and invested it in the S&P 500, their annual rate of return would have only been 1.06%. Hence, homeowners participating in shared equity homeownership do build wealth. Approximately, 62% of households went on to buy a home in the conventional market.
5. ***Preserve the public's investment by keeping homes affordable resale after resale.*** Delivering on the model's promises, these programs retained the affordability of the homes to serve the same income level resale after resale with no additional public investment.

Rental Housing with Lasting Affordability. One study examined states' Qualified Allocation Plans for their LIHTC programs and found that some states are requiring longer durations of affordability or incentivizing longer durations of affordability. The study recommended that more states move adopt longer affordability requirements[3].

Another study by the Center for Housing Policy of 269 affordable rental projects found that if lifecycle underwriting had been adopted in these projects, an additional investment of $2,500 per unit on the front end would have saved $64,000 per unit in additional public investments during

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[1] Real-time performance metrics of over fifty SEH program may be found through Cornerstone Partnership's National Data Hub: http://myhomekeeper.org/view-the-public-homekeeper-national-data-hub-dashboard

[2] Cornerstone Partnership. (2014). 2014 Social Impact Report. Oakland, CA: Author. View here: http://myhomekeeper.org/socialimpact

[3] Nelson, Marla and Beth Sorce. (January, 2013). Supporting Permanently Affordable Housing in the Low-Income Housing Tax Credit Program: An Analysis of State Qualified Allocation Plans. Portland, OR: National Community Land Trust Network.

recapitalization of these projects 15 years later[4]. Hence, it is possible to realize substantial public savings on the creation and preservation of affordable rental housing by adopting lasting affordability requirements and lifecycle underwriting.

What is Known About the Performance of Renter Asset-Building Programs?

The literature on renter asset-building programs strongly supports that these programs are cost-effective, create long-term public savings, and result in positive financial gains in very low-income households. Below are some results of a few studies within this literature.

HUD conducted a national study of Family Self-Sufficiency (FSS) programs, tracking 170 families in the housing-voucher program who enrolled in FSS at 13 housing authorities over a four-year period. After four years, about one-quarter (41) of the families had graduated from FSS. Their annual earnings had increased from an average of $19,902 in 2006 to $33,390 in 2009 (all in 2009 dollars)[5]. Thirty-five had positive balances in their FSS escrow accounts, which averaged $5,294 per family. An evaluation of three Jobs Plus programs found that the average annual earnings among non-disabled, working-age residents of the targeted public-housing developments increased by 16 percent during the seven-year study period[6].

The Corporation for Enterprise Development (CFED), in partnership with the Economics Center at the University of Cincinnati, evaluated the Cornerstone Renter Equity property management system to determine its effects on residents, the surrounding neighborhood, and property management costs. This innovative property management system includes an asset building mechanism for residents who fulfill the obligations in their lease by making timely rent payments, participating in the resident community, and helping to maintain the properties. The results suggest that by providing incentives that encourage housing stability and promote resident ownership among low-income renters, savings can be realized by the property owner through decreased turnover, vacancy and maintenance costs[7].

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[4] Brennan, Maya, Amy Deora, Anker Heegaard, Albert Lee, Jeffrey Lubell, and Charlie Wilkins. 2013. "Comparing the Costs of New Construction and Acquisition-Rehab In Affordable Multifamily Rental Housing: Applying a New Methodology for Estimating Lifecycle Costs." Working Paper. Washington: Center for Housing Policy.

[5] De Silva, Lalith, Imesh Wijewardena, Michelle Wood, and Bulbul Kaul. 2011. Evaluation of the Family Self-Sufficiency Program: Prospective Study. Prepared by Planmatics and Abt Associates for the U.S. Department of Housing and Urban Development.

[6] Riccio, James A. 2010. Sustained Earnings Gains for Residents in a Public Housing Jobs Program: Seven-Year findings from the Jobs-Plus Demonstration. New York: MDRC.

[7] Drever, Anita, Brumfield, Cara, Decker, Meredith, Sims, Lebaron et al. (October, 2013). Cornerstone's Renter Equity[SM] Property Management System: Final Evaluation Report. Washington, DC: Corporation for Enterprise Development for Ohio Housing Finance Agency.

How May Congress & HUD Advance Permanently Affordable Housing & Renter Asset-Building Programs?

These models have a strong track record of providing affordable housing in cost-effective ways that enable asset-accumulation among homeowners and residents. Interest in adopting these models within communities all across the country has been mounting. However, there are some barriers, which are stifling or completely hindering the growth of permanently affordable housing and renter asset-building programs. Consequently, there are many ways that that HUD and Congress may better support permanently affordable housing and renter asset-building programs. Some of these recommendations are below, and more are included in a recent Bipartisan Policy Center report titled, "Housing More People More Effectively through a Dynamic Housing Policy."[8]

1) **Invest more funds into the creation and preservation of affordable housing and fund the HOME program and National Housing Trust Fund (NHTF) at the levels proposed in the President's FY 16 budget.** While permanently affordable housing and renter asset-building programs offer ways to make public investments last and have more impact, they still require public funds and so do other types of important affordable housing. It is absolutely vital that funding for affordable housing programs is restored in the budget, especially for the HOME program and the NHTF. The HOME program is tremendously important for shared equity homeownership programs and for low- and moderate-income families to have the opportunity of building wealth from homeownership. The NHTF is an important new tool for helping to address the growing need for affordable rental housing.
2) **Increase affordability requirements in the HOME program and the NHT Fund.** One positive aspect of the NHTF is that longer-term affordability requirements were adopted for rental housing. However, both HOME and NHTF only require 5-15 years affordability periods for homeownership projects. We would recommend that affordability requirements require at least 30 years affordability for homeownership projects using shared equity homeownership models, so that the public investment is preserved and homes remain affordable for the first homeowner and every subsequent homeowner. Worth noting, a 30-year affordability requirement on owner-occupied homes is often the maximum duration permissible according to many states' laws; however, this duration can be structured to deliver shared equity homeownership by including additional provisions in the legal documents (This is why we recommend 30-year requirements).
3) **Remove barriers that prevent permanently affordable housing from being produced.** The regulations governing both the HOME program and NHT Fund programs contain rules that effectively prevent permanently affordable housing from being feasible. Since permanently affordable housing programs are stewarding properties *in perpetuity*, they must be able to access more funds for program administration, support services, monitoring, repair/replacement reserves, deferred maintenance, lifecycle underwriting, etc. However, federal programs rarely permit these expenses or do not adequately fund these expenses. Funding these modest expenses is far less costly than losing and replacing affordable units over time, and some of these expenses could be charged to homeowners without compromising affordability if they were made permissible under the programs.

   Lastly, there are tremendous complexities and regulatory barriers in both programs that could be simplified or removed so that more nonprofits could efficiently utilize funds. We would welcome the opportunity to share more details about these.

[8] Lubell, Jeffrey.

4) **Amend federal programs that create affordable rental housing to enable lifecycle underwriting, lasting affordability requirements, and renter asset-building programs.** There is a great opportunity to build-in lasting affordability requirements, lifecycle underwriting approaches (or other efficient financing approaches), and renter asset-building components into public housing, Section 8, HOME, NHTF, and especially LIHTC. The statutes or regulations of many of these programs actually dis-incentivize rental development projects that invest more up-front to ensure lasting affordability or prohibit renter asset-building programs. Modifying regulations to support lasting affordability and opportunities for renters to achieve some economic mobility would have a substantial impact on both the stock and the cost-effectiveness of public investments. Additionally, successful renter asset-building demonstration projects should be funded to help more households and free up rental subsidies and units.

5) **Preserve the statutory language in the Senate's FY 16 THUD budget proposal related to Community Land Trusts & the HOME program.** Presently, the dominant federal source of funding used by community land trusts (one form of shared equity homeownership) is the HOME program. However, HUD recently pointed out a statutory barrier for CLTs to maintain pre-emptive purchase options (i.e. the right of first refusal) on HOME-funded homeownership units. Maintaining pre-emptive purchase options is a critical component of any shared equity homeownership program to ensure that they may buy back properties upon resale or foreclosure and then sell them in good condition to another income-eligible household. We urge Congress to preserve the statutory clarification for CLTs and the HOME program that is presently within the Senate's FY16 THUD budget so that CLTs may continue to use HOME funds.

6) **Grant access to FHA-insured mortgages for buyers in shared equity homeownership programs.** For more than five years, we have been advocating for buyers in shared equity homeownership programs to be able to access FHA-insured mortgages. Without access to FHA-insured mortgages, a substantial portion of lower income and minority households are unable to purchase shared equity homes and improve their families' economic well-being through homeownership. HUD has been working on a "pilot program" to grant this access, and they found that this would not adversely impact the Mutual Mortgage Insurance Fund. However, our understanding is that this initiative has—once again—fallen on their priority list. We urge Congress to request that HUD make this a priority so that credit-worthy borrowers can access FHA mortgages in programs that are prudently utilizing public funds for affordable homeownership.

7) **Develop a Shared Equity Homeownership Fund.** Homeownership is the dominant source of wealth among lower income and minority households, and wealth is the dominant factor that changes the intergenerational outcomes of families, including economic, educational, and health outcomes. Shared equity homeownership programs are the only self-sustaining homeownership programs that retain public investments and serve family after family to greatly increase the impact of these homes. We urge Congress to develop a new fund specifically for the creation and preservation of shared equity homes. We believe that the fund could be designed to provide shared equity homeownership programs with grants and recycling loans in order to utilize public dollars in the most efficient and impactful way. We would welcome the opportunity work with Congress on the development of such a fund.

8) **Prioritize the passage of Housing Finance Reform & maintain the language on permanently affordable housing and community land trusts included in the Johnson-Crapo proposal.** Our housing finance system remains in a precarious and untenable position

many years after the financial crisis. We urge Congress to make housing finance reform a priority and ensure that the reform focus on responsible and equitable access to capital as well as addressing housing affordability challenges. Notably, the Johnson-Crapo proposal incorporated primary market access to mortgages for community land trusts and other permanently affordable homeownership programs (i.e. shared equity homeownership programs). Access to mortgage financing for borrowers in these programs has been a tremendous challenge due to these models being perceived as "out of the box" by lenders and both private and public financial institutions. We strongly urge that Congress address the mortgage financing barriers for buyers in shared equity homeownership programs in any housing finance reform that is eventually passed.

We welcome the opportunity to share more information and resources on affordable housing strategies that more prudently and effectively utilize public dollars, preserve the affordable housing stock to help more people over time, and create asset-building opportunities for lower-income households. It should be noted that permanently affordable housing and renter asset-building programs are only two solutions that may help with the nation's affordable housing need. It is important to acknowledge that these approaches do not address the needs of all individuals or households. Many do not have adequate incomes and face a multitude of challenges that require different forms of public assistance.

Sincerely,

Melora Hiller

Melora Hiller, Executive Director
National Community Land Trust Network

National Community Land Trust Network
The Network is a national nonprofit membership organization of community land trusts (CLT) and other organizations that promote strategic community development and permanently affordable housing to benefit lower income families throughout the United States. The Network supports its members by providing education, research, training, technical assistance, and policy analysis.